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Cotton

Cotton Annual

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Report Highlights:

In Indonesia, the world's largest cotton importer, MY1998/99 imports are estimated to remain stable at about 420,000 tons. Cotton imports for MY1999/2000 are forecast to increase slightly to 440,000 tons as spindle utilization is forecast to start increasing as the country's political and economic situation starts to stabilize. The U.S. cotton market share declined to 15% in MY1998/99 (Aug-Dec, 26% in MY1997/98) while Australia (59% share) was the leading supplier in the Indonesian market due to more competitive prices. It is forecast that U.S. market share can increase during MY1999/2000 with the improvement in U.S. supplies. However, it will depend on U.S. price's competitiveness along with the availability of technical servicing and support for trade financing. Indonesian cotton yarn and cotton fabric exports jumped tremendously from 1997 to 1998, in volume terms, by 46% and 255%, respectively. However, on a value basis, cotton yarn and cotton fabric exports declined by 37% and 5%.

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I. SITUATION AND OUTLOOK

COTTON

Cotton domestic production remains very small, accounting for less than 1 percent of total domestic consumption per year. When the economic crisis hit Indonesia in July 1997, imports of raw materials were affected, including cotton. However, due to a strong push to move exports in compensation for reduced domestic sales of cotton products, the decline in cotton imports was limited to approximately 10 percent during MY1997/98. Cotton imports for MY1998/99 are remaining flat at approximately 420,000 tons as Indonesian textile mills continue to hold quite limited stocks (supplies for 2 weeks to 1 1/5 months), and ongoing problems in opening Letters of Credit has resulted in substituting more man-made fiber for cotton. Higher imports of cotton during August - December 1998 compared to the same period of 1997 were due to increased textile production for export orders scheduled through April - May 1999, prior to the Indonesian campaign and election period in May/June. Minimal cotton imports are expected during the May-July period primarily due to concerns about moving goods to and from ports.

Cotton imports for MY1999/2000 are forecast to increase slightly to approximately 440,000 tons as spindle utilization is forecast to start increasing, probably starting early 2000 when the country's political situation and the domestic economic situation are forecast to start to stabilize. However, it is still difficult to predict at this time, how the domestic textile industry will perform in the near future. Some are optimistic that the domestic situation will stabilize, but others are uncertain. Most industry and trade sources forecast that if everything goes smoothly and growth accelerate (meaning that the rupiah exchange rate will continue stable and Indonesia will enjoy political and economic stability), the domestic textile industry is forecast to continue growing with the expansion of textile and textile products exports to both quota and non-quota countries. The domestic demand for textile and textile products is also forecast to increase as the consumers' incomes improve.

Imports of U.S. cotton increased only slightly during August-December 1998, but declined in the market share (from 16 percent to 15 percent). This compares to a 26-percent market share for the complete MY1997/98. Australia had been the leading supplier in the Indonesian market during August-December 1998, with increased in the market share to 59 percent from 43 percent in August-December 1997. Industry and trade sources indicate that since 1998 Australian cotton has been very competitive in price and quality.

Some traders and industry sources forecast that U.S. market share can increase during MY1999/2000, however, it will depend on the future U.S. prices. Also, the longer shipment period from the U.S. compared to other sources; i.e., Australia, will be taken into consideration by the domestic textile mills since the economic crisis has produced a significant and lasting shift towards reduced stockholding policies.

After dropping by 10 percent in 1997/98 and the beginning of Indonesia's economic crisis, the total domestic consumption for MY1998/99 is estimated to remain stable at about 429,000 tons. Initial forecast for the total domestic consumption for MY1999/2000 is set at approximately 444,000 tons, an increase of about 3 percent from the previous marketing year. Industry officials expect stable utilization of the number of spindles (compared to MY1998/99) through at least the end of 1999 and will probably start to increase in the first quarter of 2000. However, the situation will depend on the domestic political and economic situation after the general elections in early June, formation of the new parliament in August and the appointment of the new president in October 1999.

YARNS AND FABRICS

Total yarn and fabric production has increased during CY1996 - 1998 as Indonesia continues to increase their viscose rayon and polyester staple fiber production, along with cotton imports of 420,000 - 460,000 tons annually. Total yarn and fabric production increased by more than 12 percent and 8 percent, respectively, during CY1998. It is forecast that yarn and fabric production in CY1999 and CY2000 will increase further, by at least 5 percent each for yarns and fabrics for CY1999, as the domestic textile industry continues efforts to increase textile exports. However, the growth in the exports will depend on the domestic economy and political situation as well as the future demand of textiles and textile products in the international market.

The growth in total yarn and fabric production is also shown by the surge in the volume of cotton yarn (46 percent) and cotton fabric (254 percent) exports during CY1998. However, on a value basis, cotton yarn and cotton fabric exports declined by 37 percent and 5 percent, respectively during CY1998. The major markets for Indonesia's cotton yarn exports during 1998 were Japan (30.5 percent), Hong Kong (24.3 percent) and Taiwan (13.7 percent). Only 3 percent Indonesian cotton yarn exports went to the United States in CY1998. It is estimated that cotton yarn exports will continue increases in 1999.

France (64.9 percent), the United States (6.0 percent) and Hong Kong (4.5 percent) were the major market for Indonesia's cotton fabric exports during CY1998. Total cotton fabric exports for 1999 are estimated to expand further following the growth in cotton fabric production.

Cotton yarn imports declined by approximately 32 percent to 6,135 tons during CY1998 due to the significant devaluation of the rupiah as a result of the economic turmoil which began in July 1997. The major suppliers of cotton yarn to the Indonesian market during CY1998 were India (28.2 percent), Pakistan (23.9 percent) and Australia (23.6 percent). It is estimated that cotton yarn imports will remain small in the near term as it is still more profitable for the domestic spinners to import the raw materials and produce cotton yarns than to import yarns.

Cotton fabric imports during CY1996-1998 were stable at small volume of about 13,300 tons to 15,000 tons per year. Imports during CY1998 declined by almost 7 percent from the previous calendar year due to the economic crisis. It is estimated that cotton fabric imports in 1999 will return to the 1997 import level as the exchange rate stabilizes. Hong Kong (36.1 percent), Taiwan (16.7 percent), China (16.4 percent) and the Republic of Korea (11.9 percent) were the major suppliers of cotton fabrics to Indonesia during 1998. Imports from the United States were only about 328 tons or about 2 percent share only. Relatively higher price compared to cotton fabrics from other sources is the major constraint for U.S. cotton fabrics in entering the Indonesian market.

II. STATISTICAL TABLES

| PSD Table | | | | | | |
|------------------------|-----------|---------|--------|---------|-----|---------|
| Country: | Indonesia | | | | | |
| Commodity: | Cotton | | | | | |
| | | 1997 | | 1998 | | 1999 |
| | Old | New | Old | New | Old | New |
| Market Year Begin | | 08/1997 | | 08/1998 | | 08/1999 |
| Area Planted | 26000 | 26000 | 26000 | 26000 | 0 | 26000 |
| Area Harvested | 21000 | 21000 | 21000 | 21000 | 0 | 21000 |
| Beginning Stocks | 15283 | 15283 | 8668 | 8668 | 0 | 3468 |
| Production | 3800 | 3800 | 3800 | 3800 | 0 | 3800 |
| Imports | 418585 | 418585 | 420000 | 420000 | 0 | 440000 |
| TOTAL SUPPLY | 437668 | 437668 | 432468 | 432468 | 0 | 447268 |
| Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| USE Dom. Consumption | 420000 | 420000 | 420000 | 420000 | 0 | 435000 |
| Loss Dom. Consumption | 9000 | 9000 | 9000 | 9000 | 0 | 9000 |
| TOTAL Dom. Consumption | 429000 | 429000 | 429000 | 429000 | 0 | 444000 |
| Ending Stocks | 8668 | 8668 | 3468 | 3468 | 0 | 3268 |
| TOTAL DISTRIBUTION | 437668 | 437668 | 432468 | 432468 | 0 | 447268 |

| PSD Table | | | | | | |
|------------------------|-----------|---------|-------|---------------------|-----|---------|
| Country: | Indonesia | | | Conversion 0.004593 | | |
| Commodity: | Cotton | | | | | |
| | | 1997 | | 1998 | | 1999 |
| | Old | New | Old | New | Old | New |
| Market Year Begin | | 08/1997 | | 08/1998 | | 08/1999 |
| Area Planted | 26000 | 26000 | 26000 | 26000 | 0 | 26000 |
| Area Harvested | 21000 | 21000 | 21000 | 21000 | 0 | 21000 |
| Beginning Stocks | 70 | 70 | 40 | 40 | 0 | 16 |
| Production | 17 | 17 | 17 | 17 | 0 | 17 |
| Imports | 1923 | 1923 | 1929 | 1929 | 0 | 2021 |
| TOTAL SUPPLY | 2010 | 2010 | 1986 | 1986 | 0 | 2054 |
| Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| USE Dom. Consumption | 1929 | 1929 | 1929 | 1929 | 0 | 1998 |
| Loss Dom. Consumption | 41 | 41 | 41 | 41 | 0 | 41 |
| TOTAL Dom. Consumption | 1970 | 1970 | 1970 | 1970 | 0 | 2039 |
| Ending Stocks | 40 | 40 | 16 | 16 | 0 | 15 |
| TOTAL DISTRIBUTION | 2010 | 2010 | 1986 | 1986 | 0 | 2054 |

Actual Textile Production in CY1994-1998
in Metric Tons
(Indonesia)

| Products | 1996 | 1997 | 1998 |
|-----------------------|-----------|-----------|-----------|
| MANMADE FIBER | 523,129 | 617,660 | 746,835 |
| a. Viscose Rayon | 208,094 | 261,975 | 266,145 |
| b. Polyester Staple | 315,035 | 355,685 | 480,690 |
| | | | |
| YARNS | 1,582,749 | 1,584,178 | 1,783,696 |
| a. Polyester Filament | 522,745 | 528,984 | 612,000 |
| b. Nylon Filament | 37,070 | 37,800 | 40,163 |
| c. Spun Yarn | 1,022,934 | 1,017,394 | 1,131,533 |
| | | | |
| FABRICS | 1,208,184 | 1,241,137 | 1,341,245 |
| a. Woven Fabrics | 1,027,144 | 1,054,959 | 1,140,058 |
| b. Knitted Fabrics | 181,040 | 186,178 | 201,187 |
| | | | |
| GARMENTS | 427,740 | 460,365 | 535,034 |
| | | | |
| OTHER TEXTILE | | | |
| PRODUCTS | 25,473 | 23,653 | 21,834 |

Source: Ministry of Industry and Trade (MoIT).

Note: Data breaking down cotton vs non-cotton components of yarn and fabrics production are not currently collected by the Ministry of Industry and Trade. No data on ELS are available.

| Import Trade Matrix | | | | | |
|----------------------------|-----------|------------------|-----------|------------------|-------------|
| Country: | Indonesia | | Units: | 1,000 MT | |
| Commodity: | Cotton | | | | |
| Time period: | Aug-Jul | | | | |
| Imports for | 1996/1997 | | 1997/1998 | | 1998/1999 * |
| U.S. | 114 | U.S. | 110 | U.S. | 34 |
| Others | | Others | | Others | |
| Australia | 121 | Australia | 154 | Australia | 136 |
| India | 49 | Pakistan | 22 | China | 8 |
| Former USSR | 25 | Tanzania | 15 | Ivory Coast | 7 |
| Tanzania | 24 | India | 13 | Tanzania | 4 |
| Ivory Coast | 12 | Syrian Arab Rep. | 10 | Syrian Arab Rep. | 4 |
| Argentina | 10 | Ivory Coast | 9 | Argentina | 2 |
| Syrian Arab Rep. | 10 | Uzbekistan | 7 | Mexico | 1 |
| Greece | 8 | Former USSR | 7 | Uzbekistan | 1 |
| Mexico | 6 | Mexico | 6 | Russian Fed. | 1 |
| Turkey | 5 | Azerbaijan | 2 | Turkey | 1 |
| Total for Others | 270 | | 245 | | 165 |
| Others not listed | 83 | | 64 | | 31 |
| Grand Total | 467 | | 419 | | 230 |

Source: Central Bureau of Statistics (CBS).

*: Aug-Dec 1998 only.

Indonesian Textile and Textile Product Exports (CY1996 - 1998)

Volume: in Metric Tons; Value: in US\$1,000

| No | Products | 1996 | | 1997 | | 1998 | |
|----|--------------------|---------|-----------|-----------|-----------|-----------|-----------|
| | | Volume | Value | Volume | Value | Volume | Value |
| 1 | FIBERS | 111,958 | 146,863 | 109,319 | 135,510 | 137,632 | 146,584 |
| | 1.1. Natural Fiber | 19,174 | 21,562 | 15,770 | 22,691 | 13,096 | 18,631 |
| | a. Cotton | 16,964 | 20,224 | 14,481 | 21,070 | 12,546 | 17,357 |
| | b. Silk | 8 | 24 | 35 | 78 | 105 | 70 |
| | c. Wool | 108 | 457 | 69 | 366 | 7 | 5 |
| | d. Others | 2,093 | 856 | 1,185 | 1,176 | 437 | 1,200 |
| | 1.2. Synthetics | 92,784 | 125,301 | 93,549 | 112,819 | 124,537 | 127,953 |
| | a. Polyester | 33,219 | 38,374 | 34,734 | 33,248 | 52,347 | 39,031 |
| | b. Nylon | 576 | 978 | 50 | 316 | 403 | 555 |
| | c. Acrylic | 264 | 1,501 | 1,228 | 2,309 | 1,420 | 1,212 |
| | d. Rayon | 54,197 | 80,648 | 55,630 | 74,978 | 70,057 | 86,523 |
| | e. Others | 4,528 | 3,800 | 1,907 | 1,968 | 308 | 631 |
| 2 | YARNS | 312,127 | 909,663 | 271,201 | 762,669 | 437,909 | 889,412 |
| | 2.1. Spun Yarn | 219,543 | 722,440 | 164,652 | 535,661 | 260,859 | 635,981 |
| | 2.2. Rayon | 908 | 2,903 | 1,905 | 5,045 | 1,123 | 2,710 |
| | 2.3. Polyester | 77,537 | 138,206 | 81,511 | 151,693 | 154,758 | 197,890 |
| | 2.4. Nylon | 12,719 | 40,439 | 21,706 | 66,093 | 17,164 | 45,670 |
| | 2.5. Acrylic | 778 | 1,597 | 711 | 1,717 | 1,325 | 2,795 |
| | 2.6. Others | 641 | 4,078 | 714 | 2,461 | 2,681 | 4,367 |
| 3 | FABRICS | 260,384 | 1,736,738 | 213,355 | 1,354,447 | 374,957 | 1,345,109 |
| | 3.1. Grey | 97,226 | 437,268 | 71,441 | 325,444 | 198,654 | 378,903 |
| | 3.2. Finished | 163,158 | 1,299,470 | 141,914 | 1,029,003 | 176,304 | 966,205 |
| 4 | GARMENTS | 221,386 | 3,303,594 | 211,591 | 2,678,683 | 196,047 | 2,406,967 |
| 5 | TEXTILE ARTICLES | 65,313 | 335,236 | 52 | 244 | 45 | 236 |
| | 5.1. Rugs/Carpets | 9,120 | 23,678 | 4,997 | 17,999 | 3,635 | 14,749 |
| | 5.2. Others | 56,194 | 311,559 | 47,431 | 225,583 | 41,019 | 220,977 |
| 6 | PEBT | 0 | 0 | 411,011 | 2,144,542 | 542,198 | 2,298,041 |
| | TOTAL | 971,168 | 6,432,094 | 1,268,905 | 7,319,432 | 1,733,399 | 7,321,840 |

Source: Ministry of Industry and Trade.

* : Cotton waste.

** : Pemberitahuan Ekspor Barang Tertentu (Notification for some certain goods exports -- exports value below or equal to Rp. 300 million). Effective August 4, 1997, all commodity exports value below or equal to Rp. 300 million (current value of about \$23,077) (including textiles and textile products) are separated from the Harmonized System Code (HS Code) under Chapter 50 through Chapter 63 and are registered under Code 9801.10.300. There is no breakdown by types of textiles in this HS Code.

**Changes in Price Per Unit for Indonesia's Textile Exports
(US\$/MT)**

| No. | Products | 1997 | 1998 | % Change (97-98) |
|-----|--------------------|--------|--------|------------------|
| 1 | FIBERS | 1.240 | 1.065 | (14.081) |
| | 1.1. Natural Fiber | 1.439 | 1.423 | (1.124) |
| | a. Cotton | 1.455 | 1.383 | (4.918) |
| | b. Silk | 2.245 | 0.664 | (70.443) |
| | c. Wool | 5.300 | 0.633 | (88.048) |
| | d. Others | 0.992 | 2.744 | 176.539 |
| | 1.2. Synthetics | 1.206 | 1.027 | (14.806) |
| | a. Polyester | 0.957 | 0.746 | (22.107) |
| | b. Nylon | 6.319 | 1.377 | (78.213) |
| | c. Acrylic | 1.880 | 0.853 | (54.602) |
| | d. Rayon | 1.348 | 1.235 | (8.366) |
| | e. Others | 1.032 | 2.047 | 98.245 |
| 2 | YARNS | 2.812 | 2.031 | (27.777) |
| | 2.1. Spun Yarn | 3.253 | 2.438 | (25.060) |
| | 2.2. Rayon | 2.648 | 2.413 | (8.874) |
| | 2.3. Polyester | 1.861 | 1.279 | (31.289) |
| | 2.4. Nylon | 3.045 | 2.661 | (12.613) |
| | 2.5. Acrylic | 2.415 | 2.110 | (12.636) |
| | 2.6. Others | 3.448 | 1.629 | (52.757) |
| 3 | FABRICS | 6.348 | 3.587 | (43.491) |
| | 3.1. Grey | 4.555 | 1.907 | (58.130) |
| | 3.2. Finished | 7.251 | 5.480 | (24.418) |
| 4 | GARMENTS | 12.660 | 12.277 | (3.020) |
| 5 | TEXTILE ARTICLES | 4.646 | 5.279 | 13.624 |
| | 5.1. Rugs/Carpets | 3.602 | 4.057 | 12.658 |
| | 5.2. Others | 4.756 | 5.387 | 13.271 |
| 6 | PEBT | 5.218 | 4.238 | (18.769) |
| | TOTAL | 5.768 | 4.224 | (26.773) |

Source: Ministry of Industry and Trade and processed by FAS/Jakarta.

*: Cotton waste.

** : Pemberitahuan Ekspor Barang Tertentu (Notification for some certain goods exports -- exports value below or equal to Rp. 300 million). Please also see note on the above table.

Indonesia Cotton Yarn Exports (CY1996-1998)
HS Code 5204, 5205, and 5207

| Export Trade Matrix | | | |
|---------------------|-------------|--------|----------|
| Country: | Indonesia | Units: | 1,000 MT |
| Commodity: | Cotton Yarn | | |
| Time period: | Jan-Dec | | |
| Exports for | 1996 | 1997 | 1998 |
| U.S. | 3 | 2 | 2 |
| Others | | | |
| Japan | 18 | 19 | 24 |
| Hong Kong | 14 | 10 | 19 |
| Taiwan | 4 | 4 | 11 |
| Belgium | 5 | 3 | 3 |
| Germany | 3 | 2 | 3 |
| Malaysia | 3 | 2 | 2 |
| Australia | 3 | 2 | 2 |
| Sri Lanka | 1 | 1 | 1 |
| United Kingdom | 2 | 2 | 1 |
| Bangladesh | 1 | 0 | 0 |
| Total for Others | 54 | 45 | 66 |
| Others not listed | 10 | 7 | 11 |
| Grand Total | 67 | 54 | 79 |

Source: Central Bureau of Statistics.

Indonesia Cotton Fabric Exports (CY1996-1998)
HS Code 5208 and 5209

| Export Trade Matrix | | | |
|---------------------|---------------|--------|----------|
| Country: | Indonesia | Units: | 1,000 MT |
| Commodity: | Cotton Fabric | | |
| Time period: | Jan-Dec | | |
| Exports for | 1996 | 1997 | 1998 |
| U.S. | 10 | 10 | 9 |
| Others | | | |
| France | 0 | 0 | 101 |
| Hong Kong | 3 | 4 | 7 |
| Italy | 5 | 2 | 5 |
| Taiwan | 2 | 2 | 3 |
| United Kingdom | 3 | 4 | 3 |
| Japan | 8 | 4 | 2 |
| Philippines | 2 | 1 | 2 |
| Belgium | 3 | 2 | 2 |
| Germany | 2 | 2 | 1 |
| Netherlands | 1 | 1 | 1 |
| Total for Others | 29 | 22 | 127 |
| Others not listed | 13 | 12 | 20 |
| Grand Total | 52 | 44 | 156 |

Source: Central Bureau of Statistics.

Indonesian Textile and Textile Product Imports

(CY1996 - 1998)

Volume: in Metric Tons

Value: in US\$1,000

| No | Products | 1996 | | 1997 | | 1998 | |
|----|---------------------|---------|-----------|---------|-----------|---------|-----------|
| | | Volume | Value | Volume | Value | Volume | Value |
| 1 | FIBERS | 636,744 | 1,251,736 | 606,675 | 1,045,399 | 620,244 | 988,691 |
| | 1.1. Natural Fiber | 500,850 | 1,007,506 | 480,148 | 844,644 | 463,580 | 782,467 |
| | a. Cotton | 492,783 | 980,576 | 468,163 | 818,832 | 454,477 | 763,686 |
| | b. Silk | 10 | 772 | 9 | 63 | 65 | 309 |
| | c. Wool | 3,478 | 23,716 | 3,922 | 22,160 | 2,758 | 16,150 |
| | d. Others | 4,491 | 2,441 | 8,053 | 3,589 | 6,280 | 2,321 |
| | 1.2. Synthetics | 135,894 | 244,230 | 126,527 | 200,755 | 156,664 | 206,224 |
| | a. Polyester | 21,119 | 31,420 | 28,338 | 32,116 | 34,373 | 29,598 |
| | b. Nylon | 429 | 1,747 | 612 | 1,737 | 346 | 1,027 |
| | c. Acrylic | 92,322 | 162,705 | 82,041 | 140,767 | 103,160 | 149,385 |
| | d. Rayon | 16,782 | 37,299 | 11,332 | 18,677 | 16,731 | 22,524 |
| | e. Others | 5,243 | 11,059 | 4,204 | 7,458 | 2,053 | 3,689 |
| 2 | YARNS | 65,948 | 268,856 | 66,054 | 244,754 | 66,080 | 220,957 |
| | 2.1. Spun Yarn | 8,715 | 36,721 | 15,221 | 53,938 | 13,959 | 46,804 |
| | 2.2. Rayon | 22,509 | 96,270 | 22,490 | 91,338 | 26,004 | 95,979 |
| | 2.3. Polyester | 18,551 | 56,146 | 16,744 | 43,446 | 14,836 | 28,172 |
| | 2.4. Nylon | 15,048 | 66,620 | 9,103 | 37,507 | 9,716 | 36,142 |
| | 2.5. Acrylic | 21 | 113 | 59 | 783 | 92 | 705 |
| | 2.6. Others | 1,103 | 12,987 | 2,439 | 17,742 | 1,474 | 13,156 |
| 3 | FABRICS | 119,910 | 934,751 | 123,138 | 846,484 | 102,780 | 746,010 |
| | 3.1. Grey | 9,399 | 42,038 | 10,661 | 45,443 | 7,735 | 43,135 |
| | 3.2. Finished | 110,511 | 892,713 | 112,477 | 801,041 | 95,045 | 702,875 |
| 4 | GARMENTS | 2,103 | 9,867 | 3,004 | 11,922 | 2,154 | 5,019 |
| 5 | TEXTILE ARTICLES | 38,297 | 94,202 | 29,828 | 70,228 | 19,882 | 59,831 |
| | 5.1. Rugs/Carpets | 6,878 | 8,188 | 8,858 | 13,293 | 5,141 | 2,746 |
| | 5.2. Others | 31,419 | 86,013 | 20,970 | 56,935 | 14,741 | 57,085 |
| | | | | | | | |
| | TOTAL | 863,002 | 2,559,412 | 828,698 | 2,218,787 | 811,141 | 2,020,508 |

Source: Ministry of Industry and Trade (MoIT).

Indonesia Cotton Yarn Imports (CY1996-1998)

HS Code 5204, 5205, and 5207

| Import Trade Matrix | | | |
|---------------------|-------------|--------|----------|
| Country: | Indonesia | Units: | 1,000 MT |
| Commodity: | Cotton Yarn | | |
| Time period: | Jan-Dec | | |
| Imports for | 1996 | 1997 | 1998 |
| U.S. | 0 | 0 | 0 |
| Others | | | |
| India | 0 | 3 | 2 |
| Australia | 0 | 2 | 1 |
| Pakistan | 3 | 4 | 1 |
| Total for Others | 3 | 9 | 4 |
| Others not listed | 1 | 0 | 2 |
| Grand Total | 4 | 9 | 6 |

Source: Central Bureau of Statistics.

Indonesia Cotton Fabric Imports (CY1996-1998)

HS Code 5208 and 5209

| Import Trade Matrix | | | |
|---------------------|---------------|--------|----------|
| Country: | Indonesia | Units: | 1,000 MT |
| Commodity: | Cotton Fabric | | |
| Time period: | Jan-Dec | | |
| Imports for | 1996 | 1997 | 1998 |
| U.S. | 0 | 0 | 0 |
| Others | | | |
| Hong Kong | 4 | 4 | 5 |
| Taiwan | 3 | 2 | 2 |
| China | 3 | 2 | 2 |
| Rep. of Korea | 2 | 2 | 2 |
| Japan | 1 | 1 | 1 |
| Total for Others | 13 | 11 | 12 |
| Others not listed | 0 | 4 | 2 |
| Grand Total | 13 | 15 | 14 |

Source: Central Bureau of Statistics.

Cotton and Textiles Import Duty and Value Added Tax

| HS Code | Description | Import Duty | | VAT (%) |
|-----------------------------------|---|-------------|------------|---------|
| | | Old * (%) | New ** (%) | |
| 5201.00.000 | Cotton, not carded or combed. | 0 | 0 | 0 |
| 5202 | Cotton waste (including yarn waste and garnetted stock). | 5 | 5 | 10 |
| 5203 | Cotton, carded or combed. | 5 | 5 | 10 |
| 5204 | Cotton sewing thread, whether or not put up for retail sale. | 10 | 10 | 10 |
| 5205 | Cotton yarn (other than sewing thread), containing 85% or more by weight of cotton, not put up for retail sale. | 10 | 10 | 10 |
| 5206 | Cotton yarn (other than sewing thread), containing less than 85% by weight of cotton, not put up for retail sale. | 10 | 10 | 10 |
| 5207 | Cotton yarn (other than sewing thread) put up for retail sale. | 10 | 10 | 10 |
| 5208 | Woven fabrics of cotton, containing 85% or more by weight of cotton, weighing not more than 200 g/m sq. | | | |
| 5208.11 - 5208.19 | - Unbleached | 10 | 10 | 10 |
| 5208.21 - 5208.29 | - Bleached | 15 | 15 | 10 |
| 5208.31 - 5208.49 | - Dyed | 15 | 15 | 10 |
| 5208.51 - 5208.59 | - Printed | 15 | 15 | 10 |
| 5209 | Woven fabrics of cotton, containing 85% or more by weight of cotton, weighing more than 200 g/m sq. | | | |
| 5209.11 - 5209.19 | - Unbleached | 10 | 10 | 10 |
| 5209.21 - 5209.29 | - Bleached | 15 | 15 | 10 |
| 5209.31 - 5209.49 | - Dyed | 15 | 15 | 10 |
| 5209.51 - 5209.59 | - Printed | 15 | 15 | 10 |
| * : effective September 17, 1997. | | | | |
| ** : effective December 14, 1998. | | | | |

Source: 1999 Government of Indonesia Tariff Book.

Investment in the Indonesian Textile Industry
(CY1996 - 1998)
(in Rp. Billion)

| Industry | 1996 | 1997 | 1998 |
|----------------|-----------|------------|------------|
| Man Made Fiber | 7135.01 | 7,297.76 | 7,578.04 |
| Yarn | 18537.92 | 18,912.63 | 20,613.73 |
| Fabrics | 27297.21 | 28,230.38 | 29,220.25 |
| Garment | 2029.7 | 2,288.29 | 2,348.51 |
| Other Textile | 60371.64 | 60,437.26 | 60,532.92 |
| Total | 115371.48 | 117,166.32 | 120,293.45 |

Source: Ministry of Industry and Trade.

Note: The original data is in billion Rupiah.

Investment in the Indonesian Textile Industry
(CY1996 - 1998)
(in US\$ billion)

| Industry | 1996 | 1997 | 1998 |
|----------------|------|-------|-------|
| Man Made Fiber | 3 | 2.45 | 0.76 |
| Yarn | 8 | 6.34 | 2.07 |
| Fabrics | 12 | 9.47 | 2.93 |
| Garment | 1 | 0.77 | 0.24 |
| Other Textile | 26 | 20.27 | 6.08 |
| Total | 49 | 39.30 | 12.08 |

Source: Ministry of Industry and Trade and FAS/Jakarta.

Note: The original data is in billion Rupiah.

**Total Numbers of Textile Machinery
(CY1996-1998)**

| No. | Industry | Unit | 1996 | 1997 | 1998 |
|-----|--------------|---------|-----------|-----------|-----------|
| 1 | Spinning */ | Spindle | 6,730,270 | 7,073,281 | 7,253,281 |
| 2 | Weaving | Loom | 213,003 | 221,717 | 225,017 |
| 3 | Knitting | Machine | 40,463 | 40,812 | 40,812 |
| 4 | Finishing | Unit | 328 | 340 | 346 |
| 5 | Garment | Machine | 248,465 | 259,298 | 262,598 |
| 6 | Fiber Making | Unit | 27 | 27 | 27 |
| 7 | Others | Unit | 502 | 515 | 520 |

Source: Ministry of Industry and Trade.

Note: This table is based on permit letters released by the GOI. It does not show the running capacity nor the actual installed capacity.

*: Includes open-end spinning, estimated 10 percent of the total spindles. One rotor equivalent to 4 spindles.

**The Development of the Total Number of Textile
and Textile Product Companies in Indonesia***

| Type of Industry | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
|------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Synthetic Fiber | 20 | 22 | 23 | 26 | 26 | 28 | 27 |
| Yarn | 147 | 152 | 159 | 170 | 174 | 180 | 195 |
| Fabric | 903 | 909 | 947 | 972 | 986 | 1,007 | 1,031 |
| Garment | 652 | 674 | 705 | 723 | 723 | 795 | 808 |
| Others | 460 | 466 | 484 | 494 | 500 | 545 | 520 |
| | | | | | | | |
| TOTAL | 2,182 | 2,223 | 2,318 | 2,385 | 2,409 | 2,555 | 2,581 |

Note:

*only medium and large scale companies; does not include small scale and home companies.

Source: Ministry of Industry and Trade.

The Distribution of Textile Industry by Sectors and Regions in CY1998
(Unit: Number of Company)

| Type of Industry | Sumatera | Jakarta | West Java | Central Java | Yogyakarta | East Java | Bali | Sulawesi | Total |
|------------------|-----------|------------|-------------|--------------|------------|------------|-----------|----------|-------------|
| FIBERS | 0 | 0 | 23 | 3 | 0 | 1 | 0 | 0 | 27 |
| YARNS | 4 | 6 | 128 | 31 | 3 | 22 | 1 | 0 | 195 |
| FABRICS | 16 | 62 | 678 | 206 | 13 | 54 | 1 | 1 | 1031 |
| Woven | 10 | 18 | 489 | 199 | 11 | 38 | 1 | 1 | 767 |
| Knitting | 6 | 44 | 179 | 7 | 2 | 14 | 0 | 0 | 252 |
| Non-Woven | 0 | 0 | 10 | 0 | 0 | 2 | 0 | 0 | 12 |
| GARMENT | 19 | 322 | 287 | 48 | 7 | 46 | 75 | 4 | 808 |
| OTHERS: | 7 | 60 | 332 | 87 | 7 | 26 | 1 | 0 | 520 |
| False Twisting | 0 | 7 | 22 | 2 | 1 | 0 | 0 | 0 | 32 |
| Thread | 0 | 0 | 15 | 0 | 0 | 3 | 0 | 0 | 18 |
| Embroidery | 0 | 12 | 14 | 2 | 1 | 2 | 0 | 0 | 31 |
| Processing | 4 | 22 | 223 | 81 | 5 | 11 | 0 | 0 | 346 |
| Carpet/Rugs | 0 | 2 | 13 | 0 | 0 | 1 | 0 | 0 | 16 |
| Others | 3 | 17 | 45 | 2 | 0 | 9 | 1 | 0 | 77 |
| | | | | | | | | | 0 |
| T O T A L | 46 | 450 | 1448 | 375 | 30 | 149 | 78 | 5 | 2581 |

Source: Ministry of Industry and Trade.

Location of Textile Industry in Indonesia
(CY1996-1998)

| No. | Location | 1996 | 1997 | 1998 |
|-----|--------------|--------------|--------------|--------------|
| 1 | Sumatera | 41 | 46 | 46 |
| 2 | DKI Jakarta | 411 | 448 | 450 |
| 3 | West Java | 1,358 | 1,433 | 1,448 |
| 4 | Central Java | 367 | 370 | 375 |
| 5 | Yogyakarta | 30 | 30 | 30 |
| 6 | East Java | 144 | 145 | 149 |
| 7 | Bali | 65 | 78 | 78 |
| 8 | Sulawesi | 5 | 5 | 5 |
| | TOTAL | 2,421 | 2,555 | 2,581 |

Source: Ministry of Industry and Trade.

Exchange Rate

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|------|--------|-------|-------|-------|--------|--------|--------|--------|--------|-------|-------|-------|
| 1997 | 2,387 | 2,403 | 2,418 | 2,443 | 2,458 | 2,450 | 2,528 | 2,190 | 3,350 | 3,700 | 3,740 | 5,700 |
| 1998 | 10,250 | 8,800 | 8,660 | 7,970 | 11,250 | 14,750 | 13,000 | 11,200 | 10,750 | 7,550 | 7,300 | 8,068 |
| 1999 | 8,950 | 8,730 | 8,685 | 8,260 | 8,046 | | | | | | | |

Note: May Exchange Rate is as of May 25, 1999 only.

Source: Central Bureau of Statistics and Bisnis Indonesia newspaper.

III. SUPPLY AND DEMAND, POLICY AND MARKETING

CONSUMPTION

General

The total domestic cotton consumption for marketing year 1998/99 (MY1998/99) is estimated to remain stable at about 429,000 tons. Industry sources report that although cotton utilization by the domestic textile mills has been increasing during August 1998 - May 1999, total domestic consumption during MY1998/99 has been speeded up to avoid campaign-related difficulties in the closing months of the marketing year. Less textile production is expected in these months due to concerns of disruptions especially during the transport of inputs or outputs to and from the ports. Many large textile mills have been increasing their textile production in advance and some report they have delivered products to storage in other neighboring countries, such as Singapore and Malaysia, ready for exports to the country of destinations according to the requested export schedule.

Initial forecast for the total domestic consumption for MY1999/2000 is set at 444,000 tons, an increase of about 3 percent from the previous marketing year. Industry officials expect stable utilization of the number of spindles (compared to MY1998/99) through at least the end of 1999 and will probably start to increase in the first quarter of 2000. However, the situation will depend on the domestic political and economic situation after the general elections in early June, the formation of new parliament in August and the appointment of the new president in October this year.

The domestic demand for textile products has increased slightly during the last several months due to increases in the textile production for the political parties' T-shirts and flags (political parties' campaign period is May-June 1999). However, most sources predict that, in general, the domestic textile market remains small. With the significant price increases for fabrics and garments compared to the prices prior to the crisis, coupled with continued local consumers' low purchasing power, it is forecast that the domestic demand for textile and textile products will remain small flat and reduced in the near future.

The following problems continue to face the Indonesian textile industry: (a) problems with trade financing; (b) a sharply devalued Indonesian currency since July 1997 (please see the Exchange Rate Table) has increased the price of food and non-food items in the local market, including textile and textile products; (c) a plunge in Indonesian consumer purchasing power -- food has become more important in most local consumers' expenditure compared to fabrics/clothings; (d) reduced demand from major markets in Asia; and (e) continued competition from other textile-producing countries in Asia whose currencies were also devalued.

Trends in the Textile Industry

-- General

Total textile production grew in a range of 8 - 21 percent in CY1998 (almost 21 percent for man-made fibers, about 13 percent for yarns, about 8 percent for fabrics, and about 16 percent for garments) as textile exports continued growing. Some industry sources estimate that textile production in CY1999 will increase further as they need to increase their textile exports. For CY2000, some industry sources are optimistic that domestic consumption will fully rebound. Others remain less certain.

-- Yarns and Fabrics

Total yarn and fabric production increased during CY1996 - 1998 as Indonesia continued to increase their viscose rayon and polyester staple fiber production, while also importing about 420,000 - 460,000 tons of cotton per year. Total yarn and fabric production increased by more than 12 percent and 8 percent, respectively, during CY1998.

For CY1999, it is estimated that yarn and fabric production will increase further (by at least 5 percent each for yarns and fabrics) as the domestic textile industry continues efforts to increase textile exports to increase foreign exchange income. Yarn and fabric production is forecast to increase further in 2000. However, many factors will affect the expansion:

- a. Whether or not textile mills can overcome the problems in opening L/Cs to import raw materials, such as cotton.
- b. Banks' interest rate. Traders and industry people currently prefer to deposit their money in the banks due to high interest rates (currently down to about 28-35 percent in rupiah and about 10-16 percent in U.S. dollar account). This affects stock policies due to preference for high interest returns rather than piles of cotton bales.
- c. Whether or not the domestic textile industry can obtain working capital for expansion of textile machinery and/or to replace the existing old machines.
- d. Future rupiah exchange rates compared to the U.S. dollar. If the rupiah exchange rate remains fairly stable, planning decisions can be more long term.
- e. The demand of textiles and textile products in the international market.

- f. Whether or not the GOI will improve the investment atmosphere for both local and foreign investors. Reportedly, a lot of hidden costs still exist. Textile industry officials proposed to the GOI to reduce the current 10 percent Value Added Tax (VAT) to boost textile demand.
- g. The demand of textiles and textile products in the domestic market.
- h. The stability of the price of food and non-food item and consequent disposable income available for garment and other textile purchases.

Trends in Blends

Although large integrated textile mills do not frequently switch fiber blends, the massive depreciation of the rupiah and consequent dramatic increase in imported raw material costs forced some mills to consume more man-made fibers for blends for their textiles targeted for the export market. Based on the actual domestic man-made fiber production data for CY1998 and the total cotton import data for CY1998, FAS/Jakarta estimates that cotton utilization during CY1998 declined to about 38 percent from about 43 percent in CY1997. Rayon utilization also declined in CY1998 to about 22 percent from about 24 percent in CY1997. At the same time, during CY1998 polyester fiber utilization increased to approximately 40 percent from about 33 percent in CY1997. Specific reasons as cited by industry people are as follows:

1. The price of polyester has been very low, roughly half that of cotton. Therefore, more man-made fibers were used for blends for their textiles targeted for exports so that they can receive higher profit margins.
2. Although still sold under U.S. dollar terms, polyester and rayon are produced and sold locally. Therefore, the problem of opening L/C's is avoided.

Investment in Textile Industry

Several large companies have been in the "wait and see" status for expansion plans. Expansion by large scale textile companies is not expected through the end of 1999 due to the lack of available capital and economic and political uncertainty (they want to see the situation after the new president is appointed and he/she makes cabinet selections).

Price Trends

The price of exported textiles per unit for all categories during 1998 declined drastically compared to the previous year as Indonesian textile and textile products faced higher competition and lower demand in the world market. Key competitors cited by local industry officials include Pakistan, India, the Philippines and Malaysia.

Textile Exports

Despite the economic turmoil which started during the latter half of 1997, Indonesia's textile exports for the calendar year 1998 continued to grow in both volume and slightly in value. For CY1999, industry sources estimate that total textile exports will continue to increase in volume by approximately 5-10 percent. The expected increase in volume is due to more mills focusing on the export market as the domestic market remains weak. Many textile producers, which previously mainly concentrated on the domestic market, have started promoting sales overseas. They are aggressively looking for new markets, especially countries which do not impose quotas. Some industry sources estimate that the total Indonesian textile export value will reach \$8 billion in 1999 compared to \$7.3 billion in 1998. Others estimate that the total export value will reach about \$7.5 - \$7.7 billion in 1999 with increases in volume of about 10-15 percent. Others fear continued uncertainty in both the economic and political situation, stating that much will depend on the developments after the June 7 elections - specifically citing their ability to open L/Cs and the level of the Indonesian rupiah against U.S. dollars.

TRADE

Cotton

Indonesia's cotton imports are forecast to increase slightly to approximately 440,000 tons in MY1999/2000. Some trade and industry sources forecast that cotton imports will increase slightly to about 2.0 million bales in MY1999/2000 with the assumption that there is no disturbance in the domestic economic and political situation after the general elections in June 7 this year. Others are optimistic that total cotton imports in 2000 will increase by approximately 10 - 15 percent from the 1999 level as domestic cotton consumption is forecast to increase (mostly for producing textiles targeted for the export market). Also, some mills which had difficulties in opening L/Cs have found the way out to be able to import cotton either by opening L/Cs through the third countries (i.e., Singapore, Hong Kong, Dubai) or by telex transfer (i.e., pay 25 percent when cotton is loaded on ships and pay the rest when cotton is on the way to Indonesia). Several mills are also utilizing the GSM-102 and the Australian EFIC programs for trade financing. It is reported that the GOI plans to establish an export financing agency or bank to help exporters, but details remain sketchy.

There is no change in the import data for MY1998/99 from ID9029.

Reflecting high prices and low availability, imports of U.S. cotton increased only slightly during August-December 1998, but declined in market share (from 16 percent to 15 percent). Australia had been the leading supplier in the Indonesian market during August-December 1998, with imports totaling 136,488 tons (59 percent share) compared to 84,238 tons (43 percent share) in August-December 1997. Industry and trade sources indicate that since 1998 Australian cotton has been very competitive in price and quality. Reportedly, U.S. cotton prices were about \$0.08/lb. higher than Australian cotton of an equivalent quality. Some traders and industry sources forecast that U.S. cotton market share may increase during MY1999/2000, however, it will primarily depend on the U.S. prices. More technical assistance, improved services by the U.S. cotton suppliers and continuity/improvement of credit facilities will also determine U.S. competitiveness in this market, the world largest importer.

Cotton Yarns and Cotton Fabrics

The growth in total yarn and fabric production is also reflected in the tremendous jump in cotton yarn (46 percent) and cotton fabric (254 percent) exports during CY1998. The major markets for Indonesia's cotton yarn exports during 1998 were Japan (30.5 percent), Hong Kong (24.3 percent) and Taiwan (13.7 percent). The United States was one of the markets for Indonesia's cotton yarn exports with a total of 2,460 tons imported during 1998, or about 3 percent share. It is estimated that cotton yarn export will continue to climb in 1999 and these markets will remain the major export destinations for Indonesia's cotton yarn exports.

France (64.9 percent), the United States (6.0 percent) and Hong Kong (4.5 percent) were the major market for Indonesia's cotton fabric exports during CY1998. During CY1998, the share of cotton fabric exports compared to the total fabric exports increased from 21 percent in 1997 to 42 percent in 1998. Total cotton fabric exports for CY1999 is estimated will continue to expand following the growth in cotton fabric production.

Cotton yarn imports declined by approximately 32 percent to 6,135 tons during CY1998 due to the significant devaluation of the rupiah as a result of the economic turmoil which began in July 1997. The major suppliers of cotton yarn to the Indonesian market during CY1998 were India (28.2 percent), Pakistan (23.9 percent) and Australia (23.6 percent). These three suppliers had been the major suppliers of cotton yarns to Indonesia during 1997-1998. The United States only exported a small quantity of 14 tons in CY1998, a huge drop from the 73 tons reached in CY1996, but increased from the 5 tons exported in 1997. Uncompetitive prices of U.S. cotton yarn is the most significant factor for the small U.S. market share. It is estimated that cotton yarn imports will remain small in the near term as it is still more profitable for the domestic textile mills to import cotton and produce cotton yarns than to import yarns. Most of cotton yarn produced domestically and imported are sold to local textile mills for further processing for exports.

Cotton fabric imports during CY1996-1998 were stable at a small volume of about 13,300 tons to 15,000 tons per year. Imports during CY1998 declined by almost 7 percent from the previous calendar year due to the economic crisis. It is estimated that cotton fabric imports in CY1999 will return to the 1997 import level with the fairly stable exchange rates. Hong Kong (36.1 percent), Taiwan (16.7 percent), China (16.4 percent) and the Republic of Korea (11.9 percent) were the major suppliers of cotton fabrics to Indonesia during CY1998. It is estimated that these countries will continue to be the leading suppliers of cotton fabric imports to Indonesia during CY1999. Imports from the United States (2% market share) had also declined from 457 tons in 1996 to 328 tons in 1998. Relatively higher price compared to cotton fabrics from other sources is the major constraint for U.S. cotton fabrics in entering the Indonesian market.

STOCKS

Industry sources report that the healthier export-oriented mills continue to hold three months of cotton stocks, while less healthy mills hold from 15-45 days of stock. Basically, due to the crisis, most mills prefer to deposit their money in the banks as the interest remains attractive (about 28-35 percent in rupiah and about 10-16 percent for U.S. dollar account) resulting in relatively lower cotton stocks. They prefer to keep cotton stocks lower also because they need more cash for their working capital.

MARKETING

Marketing activities in Indonesia should focus on the financial issues that can improve the spinners' ability to import cotton. Given the current economic situation in Indonesia, priority should be placed on those textile mills that either export textile products directly, or sell downstream to domestic textile mills that are export oriented.

The utilization of the GSM-102 program during FY1999 (Oct-May; as of May 7, 1999) for cotton imports declined to US\$7.7 million from US\$ 28.10 million during FY1998 (Oct-May; as of May 1, 1998). The lower utilization of U.S. cotton is a result of uncompetitive prices and longer shipment time compared to cotton shipments from other sources, such as Australia. In addition to high U.S. prices some industry and trade sources report that there are some serious local banking constraints in fully utilizing the GSM-102 program for cotton imports, as follows:

1. Currently, the banking system in Indonesia is in flux. In mid-March 1999, the GOI closed down a number of local banks, of which some of these banks are the eligible GSM banks. In fact, the GOI program in banking restructuring and recapitalizing has not yet been completed.
2. Industry officials are forced to seek out new working relationships with local banks as previous relationships are no longer feasible due to various factors - primarily the weakness/insolvency of their old bank, or some of the banks have been closed down. At the same time, even the relatively healthier banks are reluctant to establish new lines of credit with new customers under current circumstances. The end result is that most of these banks are requiring 100 percent pre-deposits before opening L/Cs.
3. Usually, it is easier to open L/Cs from the local state-owned banks or the foreign private banks than the local private banks. However, the bureaucratic requirements under state-owned banks often result in lengthy delays in approving the L/Cs.
4. Sometimes, the officials at the Indonesian banks' branch offices are not yet aware of the program due to long bureaucracy between the central office and the branch office so the importers sometimes have to give a presentation on the program.

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